

Openings and Retrospectives



CRISIS EFFECTS

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In late 2013 I was sitting in Dinar Matahari, an airy cafeteria inside the headquarters of the Malaysian Central Bank (Bank Negara), with Anwar, a senior bank official responsible for regulating Islamic finance in the country. It was late afternoon and the cafeteria was sparsely occupied. Employees had already begun wiping down tables, signaling the end of another workday. Anwar and I had started our conversation by discussing the technical aspects of Islamic finance, focusing on Bank Negara's plans to develop standard forms for twelve contracts that it had identified as pivotal to the industry and discussing some of the problems around calculating risk in Islamic finance.¹

Abruptly, Anwar shifted gears and asked: "Is it OK to talk about religion?" He then launched into a monologue that, at first, seemed to have little to do with the preceding discussion. Only Allah and the prophet Muhammad, he explained, could know what would happen in the future: "We act as if we will live forever . . . but our behavior must be checked." The check on human behavior was the fact that the twin angels of Islamic eschatology, Roqib and Atid, would tally our

sins in advance of judgment day.² Coming full circle, Anwar invoked the Islamic prohibition of interest as an ethical commandment, explaining that Allah had “prohibited *riba* [interest],” but that the dominance of interest in global finance had created numerous problems, most notably the 2008 financial crisis. The financial disorder in the world today, he explained, stemmed from the fact that God had commanded humans “don’t practice *riba*,” but this commandment had been ignored.



Figure 1. The headquarters of Malaysia’s central bank, Bank Negara.
Photo by Daromir Rudnyckyj.

While a senior central banker attributing financial crisis to the failure to obey divine injunctions might appear odd in Europe or North America, such attributions were ubiquitous among Islamic finance experts in the years following 2008. Indeed, invocations of crisis and its relationship to Islamic finance were the

subject of frequent debate, discussion, and introspection among professionals in the field. The events of 2008 brought new urgency to the project of Islamic finance and economics, as experts sought to demonstrate what they called the “value proposition” of these forms of knowledge, by which they meant the benefits that Islamic finance offered to a world seeking remedies from fiscal turmoil (Asutay 2012). In so doing, they created a conveniently identifiable frame against which experts could contrast the ethics and operations of Islamic finance. The shape and trajectory of contemporary Islamic finance has been, in certain key respects, formed by representations of crisis that emerged in response not just to the events of 2008, but also to events a decade earlier, which were also defined against crisis and likewise had a profound role in shaping Malaysian Islamic finance (Kassim and Majid 2010).

In describing this formation, I develop the concept of *crisis effects* to provide analytical purchase on how representations of crisis precipitate sociotechnical interventions, such as those made by Islamic finance experts in contemporary Malaysia. This formulation draws on Janet Roitman’s (2013, 12) observation that researchers should both be conscious of “the effects of the claim to crisis [and] be attentive to the effects of our very accession to that judgment.” Roitman contends that invocations of crisis are regularly deployed as part of explicitly political projects. Her objective is to show how “crisis narratives” establish “the conditions of possible histories” (Roitman 2013, 11). In attending to crisis effects, I build on Roitman’s attention to crisis narratives in documenting the construction of a sociotechnical intervention.³ Furthermore, I heed Roitman’s caution against presuming crisis as either an analytical frame or a necessary historical outcome. I thus ensure that attention to crisis effects does not take crisis as a structural feature in the history of capitalism (cf. Marx 1977), but rather seeks to document it as a representational object. In so doing, I show how representations of crisis are mobilized and the types of interventions to which they give rise. In Malaysia, two events retrospectively labeled crises have radically influenced the formation of Islamic finance in the country. In this sense, the contemporary configuration of Islamic finance can be understood as a crisis effect.

CRISIS ONE

In Malaysian Islamic finance, the events of 2008 were perhaps less important than a crisis narrative that had emerged ten years before. While it was of only fleeting concern in media and public consciousness in North America, the 1998 Asian financial crisis and narratives about it were formative in recent Malaysian

history. Indeed, they accelerated efforts to scale up Malaysian Islamic finance from a national project to an international one. The Malaysian state began to aggressively position the country as a global center for Islamic financial services. While Malaysia had developed a national infrastructure for Islamic finance in the 1980s and 1990s, in the early 2000s it began to focus on developing an international one. This included establishing the regulatory, research, educational, and legal infrastructure necessary to facilitate Islamic finance globally.

The 1998 crisis inspired a highly visible public media spectacle in which Mahathir Mohamad, then prime minister of Malaysia, lambasted Wall Street financiers and laid blame for the crisis at their feet. The specific target of Mahathir's ire was the influential hedge-fund manager George Soros, whose speculation against Asian currencies Mahathir held responsible for the financial difficulties of countries such as Malaysia, Indonesia, Thailand, and South Korea. Mahathir famously referred to currency speculators, Soros foremost among them, as "unnecessary, unproductive, and immoral" (*Economist* 1997).

Mahathir's criticisms were not only fodder for media spectacle. In the wake of the crisis, political officials and Islamic financial experts in Malaysia initiated technical and administrative efforts to forge a transnationally integrated Islamic alternative to the conventional financial system. In 1999 the Kuala Lumpur Shariah Index (KLSI) was launched to showcase equities that were deemed compliant with Islamic law. A counterpoint to the Dow Jones Islamic Market Index (*Maurer* 2005, 105–108), the KLSI sought to avoid investment in companies that engaged in activities deemed contrary to Islam, such as gambling, certain forms of entertainment, and the production of alcohol, pork, and weapons. Then, in 2002, the Malaysian government established the Islamic Financial Services Board (IFSB; *Çizakça* 2011, 151). The IFSB is an international standard-setting organization that develops global standards and guiding principles for Islamic financial institutions. It was based in Kuala Lumpur, after successfully lobbying the Organization of the Islamic Conference to headquarter the institution in Malaysia. Today, membership in the IFSB exceeds 150 institutions, including regulatory supervisors such as central banks and securities regulators, financial institutions and professional firms, and international intergovernmental institutions such as the Asian Development Bank and the Islamic Development Bank.

Malaysia also fostered research and educational infrastructure in the wake of the crisis by establishing two key institutions: the International Center for Education in Islamic Finance (INCEIF) and the International Shariah Research Academy (ISRA). INCEIF was formed to alleviate a shortage of qualified personnel

familiar with the intricacies of Islamic finance and capable of staffing Islamic financial institutions. Bank Negara founded INCEIF and designated it the “global university” for education in Islamic finance. The goal was to create professionals as well versed in *shariah* (Islamic law) as they were in finance. As degree programs in Islamic finance have proliferated around the world, INCEIF has become regarded as a leading site for Islamic finance education. One of the distinguishing features of the university’s curriculum is that it requires students to complete coursework not only in conventional and Islamic finance, but also in Islamic law and jurisprudence (*fiqh*). The standard curriculum includes courses ranging from financial econometrics to the methodologies of Islamic jurisprudence.



Figure 2. The headquarters of the Islamic Financial Services Board.
Photo by Daromir Rudnyckyj.

ISRA was established to cement Malaysia's position as a key center for research in Islamic finance and to make the so-called Malaysian model of Islamic finance a global standard.⁴ The institute conducts applied research on *shariah* questions in Islamic finance and seeks to foster dialogue between the four main expert groups in Islamic finance: *shariah* scholars, Islamic economists, regulators, and Islamic finance practitioners. In addition to creating new knowledge, ISRA is a repository of knowledge about *shariah* decisions (*fatwa*) on Islamic finance; it also examines debates over the role and interpretation of *shariah* in the Islamic financial industry, both in Malaysia and abroad. A major issue in Islamic finance are the differences of opinion between *shariah* scholars in the Middle East, South Asia, and Southeast Asia regarding the permissibility of certain contracts. ISRA facilitates interaction among *shariah* scholars in the diverse regions of the Islamic world by translating Arabic documents into English and vice versa, thus reducing linguistic barriers to the circulation of knowledge in fields pertaining to Islamic finance. It also seeks to enhance communication among *shariah* scholars by holding two major meetings each year. One is considered regional and consists of scholars from Southeast Asia, including Malaysia, Indonesia, Brunei, Thailand, and the Philippines. The other is global and is attended by scholars from across the Muslim world. The first of these meetings, held in 2005, was a material instantiation of efforts to bridge differences in interpretation of Islamic law and thus to develop a transnational Islamic financial infrastructure.

CRISIS TWO

While what became known as the Asian financial crisis precipitated the creation of the infrastructure for a global Islamic alternative to the conventional financial system, events at the end of the decade that followed reinvigorated Malaysia's Islamic finance project. In some cases this took the shape of moral invocations, such as those by Anwar with which I opened this essay. Proponents of Islamic finance argued for its superiority in theological terms, arguing that the home foreclosures, bankruptcies, job losses, and sovereign debt defaults that swept across parts of North America and Europe were due to the failure of citizens and political leaders to conform to Islamic injunctions against debt. For example, as one senior Islamic scholar said at a conference examining the articulation of Islam and finance: "The financial crisis is really the collapse of the ethical norms and shared values of all the major civilizations." He then invoked the revelation of Islam as the response to financial crisis, quoting the prophet Muhammad as

working to “perfect the virtues of morality” that led to events such as financial crisis.

Yet the remedy that Islamic finance offered in response to seemingly recurrent crises was not only framed in moral and theological terms. Islamic finance experts asserted a technical justification for Islamic finance that emphasized the superiority of economic arrangements premised on partnership and investment, rather than interest-based lending (Mirakhor and Bao 2013). What became known as the 2008 financial crisis was largely interpreted in Malaysia and in the United States as the outcome of a surfeit of debt (Mian and Sufi 2014). Islamic finance experts regarded Qur’anic injunctions against interest as a caution against debt, mirroring recent anthropological anxieties (Peebles 2010; Karim 2011; Han 2012; Bear 2015; Schuster 2015). Moreover, they saw Islamic injunctions against debt as a surface manifestation of a more profound problem: the rampant proliferation of a financial device characteristic of debt-based capitalism, leverage.

Leveraging refers to the practice of purchasing assets with a combination of equity and borrowed funds, under the presumption that the income generated by the asset will exceed the cost of borrowing those funds: the interest payments (Appadurai 2016, 137). During the rapid escalation of real-estate values in the early 2000s, many Americans “leveraged up” by using the equity in their homes to take out additional mortgages and sometimes used these borrowed funds to purchase additional property. During an economic boom leveraging can be an enormously profitable strategy, as it was for homeowners who used debt to purchase rapidly appreciating properties. However, during a downturn, leverage can lead to devastating losses. This was evident during the 2008 crisis when real-estate values suddenly suffered acute drops. In several cases this left homeowners and other real-estate investors owing more to banks than the value of their properties. Forced sales of real estate led to further declines in property prices, pushing more homeowners underwater (Stout 2016). Leverage greatly multiplies the risk in a given financial strategy. For example, the widespread use of credit-default swaps to insure collateralized debt obligations precipitated the near collapse of the insurance giant AIG at the height of the 2008 financial crisis, a prime example of high-risk leveraging (Roitman 2013, 51–53).

In contrast to the debt-fueled excesses of conventional finance, Islamic finance experts sought to build an Islamic system based on equity and investment. They argued that the proliferation of leverage had produced the calamity of 2008. Rather than lending money, they believed that an Islamic system should put limits on the hazards of leverage by making investment the central mechanism for the

mobilization of capital (Chapra 2008). There are different versions of equity-based devices, but the one most often invoked by those seeking to reform Islamic finance is the *mudaraba* (Çizakça 2011, 30–31). In this contract, a party with surplus capital invests with an entrepreneur in need of capital for a business concern. The two parties form a partnership in which they agree to share in any profits (or losses) generated by the company. The investor accepts the risk that the enterprise may not produce any returns, but also offers his or her guidance and advice to the entrepreneur. Advocates of equity-based contracts argue that they put limits on leverage because, in the words of one interlocutor: “You can’t invest what you don’t already own.” In the wake of the second crisis Islamic finance experts engaged in a project to change the technical devices characteristic of Islamic finance from ones based on debt to ones instead based on investment. Today the Malaysian state, led by the country’s central bank, is aggressively seeking to make the country’s capital a central node in an emergent global Islamic financial system. This has involved creating the essential infrastructure necessary to make an Islamic alternative to the global financial system possible. Professionals and experts in the field commonly acknowledge that the country has created the most developed system of regulatory, legal, educational, and commercial institutions for Islamic finance. Today, there is a viable, transnational Islamic financial system that does many of the same things that the conventional system does: that is, it facilitates the availability of capital for commercial development on a range of scales.

In spite of these ambitious developments, Islamic finance is still dwarfed by its conventional counterpart. At the end of 2016, the total assets held by Islamic financial institutions around the world was about \$1.89 trillion and the annual growth rate of those assets averaged 10 percent per year. While perhaps impressive as a number, this volume is roughly equivalent to the size of the assets held by a single large U.S. financial firm such as Citigroup. In this sense, Islamic finance remains an emergent project. Nonetheless, it would be wrong to conclude that Islamic finance will always remain a niche realm in global finance. Indeed, the dream that drives many Islamic finance professionals is one that might be termed *geoeconomic*. It is a poorly kept secret that oil-rich countries such as Saudi Arabia, Kuwait, Qatar, and the United Arab Emirates have hundreds of billions of dollars invested in conventional, debt-based instruments in the financial capitals of the West through their massive sovereign wealth funds. Islamic finance professionals in Malaysia and beyond hope that once the citizens of these countries wake up to the hypocrisy of Gulf leaders who espouse puritanical, Salafi piety but rely on the

haram financial services of JP Morgan Chase, Goldman Sachs, and Barclays, among others, they will demand changes to the ways in which the capital that these countries hold is managed. When this happens, they imagine, these sovereign wealth funds will be withdrawn from the conventional financial system and will instead be invested in financial instruments that do not violate the antidebt ethos of Islam, with its stringent prohibitions on the collection or payment of interest.

CRISIS IN THEORY, CRISIS IN METHOD

Our time is that of crisis, or so we are told. From the opioid epidemic to the nuclear standoff with North Korea, from the revolving door of White House staff to the ever-present specter of economic collapse with each gyration of the markets, crisis glares as a ubiquitous sign under which history is lived. However, we would be well advised to heed Roitman's caution against presuming crisis as an analytical frame or teleological outcome. The narrative construction of financial crisis has had wide-ranging effects, exemplifying what [Douglas Holmes \(2014\)](#) has called the "economy of words." Building on these approaches, I have sought to illustrate how, although crisis narratives are always representations, these representations have material and technical effects. Rather than asking whether crisis exists or trying to deploy it to define an epoch, I have sought to show what representations of crisis do.

In Malaysia two events, a decade apart, came to be retrospectively constructed as crises, in turn precipitating financial experimentation. Following the 1998 crisis, political leaders and experts sought to create a globally integrated alternative financial network to that centered in Western financial centers such as New York, London, and Frankfurt. They worked to create a new network that operated according to Islamic norms and linked cities such as Kuala Lumpur, Dubai, and Bahrain. Ten years later, the next crisis event gave rise to soul-searching about what made Islamic finance distinctive from its conventional counterpart. Experts invoked crisis narratives in seeking to shift Islamic financial devices away from the taint of debt and leverage toward investment and partnership. Crisis effects, then, have shaped Islamic finance even as Islamic financiers seek to foreclose the crisis yet to come.

NOTES

1. In the broadest terms, *Islamic finance* refers to an ongoing effort that began in the 1970s to create a functioning financial infrastructure and set of financial devices that comply with religious prescriptions for economic action. Most centrally, this entails efforts to comply with Qur'anic prohibitions against interest payment, speculation, and contrac-

tual ambiguity (Maurer 2005; Çizakça 2011; Rethel 2011; Pitluck 2013). In my forthcoming book (Rudnycky, forthcoming), I document how contemporary Islamic finance is defined by efforts to move away from devices that replicate the debt-based instruments of conventional finance and toward ones premised on equity investment and risk-sharing.

2. For more on this tenet of Islamic eschatology, see Bowen 1984 and Rudnycky 2010, 145.
3. This formulation builds on Timothy Mitchell's (2011) attention to the sociotechnical work of expert interventions.
4. Here, I draw on the work of Elizabeth Dunn (2005), who has documented the importance of standards in the creation of global infrastructures.

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